California

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November 12, 2004

Mr. Keith Rake
Deputy Assistant Commissioner
Bureau of the Public Debt, Department of the Treasury
200 – Third Street
PO BOX 396
Parkersburg, WV 26101-0396

Refer to: Docket #NPRM, BPD-02-04

Dear Mr. Rake:

As a major issuer of tax-exempt financing, we have some concerns about the proposed SLGS regulations as outlined in Federal Register Volume 69, Part IV (September 30, 2004).

Practices and Regulatory Proposals:

- **Limiting the SLGS subscription window from 10am to 6pm (Eastern Time).** We are unclear of the reason the window to purchase SLGS is closing at 3 pm Pacific Time (12 noon certain times of the year for issuers in Hawaii). Given the requirement to subscribe through the SLGSafe site, Treasury could keep the window open longer and not impact issuers anywhere in the country. While this may not be a problem for issuers on the east coast, by limiting the time during which we can subscribe, the Bureau is constricting the time users have to verify the escrow. Any problem in the escrow verification process could take the issuer outside the 3 pm window, which could impact the bond sale. Additionally, many transactions begin order periods or take bids before 10 am (Eastern time); this start time could delay many sales. Perhaps the SLGS window could be open between 8:00 am and 9:00 pm Eastern Time.

- **Prohibit the purchase of SLGS with a maturity longer than is reasonably necessary to accomplish a governmental purpose.** While we agree in principle with the proposed regulation, we are unclear, and therefore concerned with who makes the determination about what is reasonable. The regulation is extremely vague in that aspect. Are guidelines going to be drafted to address this ambiguity?

- **Cancellation of SLGS subscriptions would be prohibited unless the subscriber establishes, to the satisfaction of Treasury, that the cancellation is required for reasons unrelated to the use of the SLGS program to create a cost-free option.** The regulations are silent as to how issuers would satisfy these requirements. Are guidelines going to be drafted that outline under which circumstances SLGS can be cancelled?

- **We propose that once an issuer selects an issue date for Time and Demand Deposit securities, the subscription cannot be amended to change the issue date.** While issuers strive to close a sale on the date selected, problems can occur between pricing and closing that are outside the control of the issuer that could move the closing date of the sale.

General Concern:
Throughout the discussion of the proposed regulations, the Department of Treasury refers to some of these changes as "cost-free options"; however, it is our understanding that SLGS rates are set to generate 5 basis points less than open market securities. Issuers do pay for the current flexibilities built into the SLGS program.

By reducing or eliminating these flexibilities, issuers will look more toward open market securities to fund escrows. This could lead to the market abuses (including yield-burning) of the 1990s, which we understand was one of the reasons the SLGS program was developed.

Thank you for the opportunity to comment on the Treasury Department's proposed SLGS regulations. As the largest issuer of municipal debt in the United States, it is important that we share some concerns from the issuer's perspective. If you or your staff have any question, please contact Geoff Palmertree at (916) 653-2440.

Sincerely,

Katie Carroll
for Juan Fernandez, Director
Public Finance Division